

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58023

PEND OREILLE COUNTY, WASHINGTON

January 1, 1995 Through December 31, 1995

Issue Date: January 31, 1997

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PEND OREILLE COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Chairman of the Board of Commissioners
Pend Oreille County
Newport, Washington

We have audited the financial statements, as listed in the table of contents, of Pend Oreille County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated December 30, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Pend Oreille County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

December 30, 1996

PEND OREILLE COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

Chairman of the Board of Commissioners
Pend Oreille County
Newport, Washington

We have audited the financial statements of Pend Oreille County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated December 30, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

December 30, 1996

PEND OREILLE COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. Controls Over Cash Receipting Should Be Strengthened At The Public Works Department

During our review of the cash receipting system at the Public Works Department, a system which collected in excess of \$2.9 million during 1995, we noted the following internal control weaknesses:

- a. No established written policies and procedures for the cash receipting process.
- b. Receipts are not consistently issued for all moneys received.
- c. Public funds are not being deposited intact within 24 hours of receipt as required by state law.
- d. Cash/check composition is not consistently recorded on receipts.
- e. The use of blank Redi-form receipts. The use of "Redi-form" receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner because the assignment of the numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- f. Checks are not restrictively endorsed upon receipt.
- g. Established procedures do not ensure that the proper fees are collected when services are rendered as required.

RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

Weak internal controls over cash receipting increases the risk of theft.

These conditions have occurred because the Public Works Department has not implemented strong internal controls over the cash receipting system. Also the county does not have written procedures from which to establish and maintain proper control over county cash receipting.

We recommend the Public Works Department strengthen internal controls over the cash receipting system. These controls should include:

- a. Establishing written policies and procedures for cash receipting.
- b. Issue cash receipts for all funds collected.
- c. Deposit intact, within 24 hours of receipt, all public funds received.
- d. Record the cash and check composition on receipts to help assure that all receipts are recorded and deposited.
- e. Replace blank Redi-form receipts with official county prenumbered receipts.
- f. Restrictively endorse all checks upon receipt.
- g. Collect the appropriate fees at the time the service is rendered.

Auditee's Response

I have reviewed your recommendations concerning strengthening controls over cash receipting in the Public Works Department, and have the following response to your recommendations.

Recommendation A.

I have received a copy of Pend Oreille County cash receipting policy, and I have taken steps to implement this policy.

Recommendation B.

Cash receipts will be issued for all funds collected.

Recommendation C.

All public funds received will be deposited within 24 hours.

Recommendation D.

All cash and checks will be recorded on receipts.

Recommendation E.

All redi-form receipts have been replaced with official County prenumbered receipts.

Recommendation F.

All checks will be restrictively endorsed upon receipt.

Recommendation G.

Appropriate fees will be collected at the time service is rendered.

Auditor's Concluding Remarks

It appears that the county is in the process of taking appropriate steps to address the weaknesses noted.

2. Internal Controls Should Be Strengthened At District Court

During our audit of the District Court's cash receipting system which collected more than \$400,000 during 1995, we noted the following internal control weaknesses:

- a. There is an improper segregation of duties. The same person receipted cash, created time pays, and posted adjustments to daily receipts and accounts receivable files in the District Court Information Systems (DISCIS). These are incompatible duties.
- b. Cashiers are given improper access to the DISCIS system. Cashiers have been assigned the accountant user identification which allows them special privileges of completing overrides, creating time pays, and receipt reversals.
- c. DISCIS created audit reports are not generated or reviewed. These audit reports provide information on receipts and adjustments which validate recorded receipts.
- d. The court bank account was not reconciled for over four months.

RCW 43.09.200 states in part:

The accounts shall show the . . . documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction . . .

The court has not implemented strong internal controls over the cash receipting internal control system.

Inadequate internal controls over cash receipting increases the court's exposure to theft.

We recommend that the policies and procedures be established and implemented to strengthen the cash receipting internal control system. We further recommend that system generated audit reports be produced, monitored, and retained.

Auditee's Response

- a) *This finding is correct, however, the lack of segregation of duties is directly related to the fact that each member of my staff must be able to perform multiple tasks in order to serve the public. The Court is simply not staffed at a level which allows a complete segregation of duties. There are steps which will be taken to mitigate weaknesses in this area, these will be implemented within 30 days.*
- b) *This finding relates to the same circumstances expressed in Section (a) above. I believe it is necessary for my staff to perform multiple functions. For example, two staff members were on vacation during the week of Christmas, leaving three people in the office. Any time I was in Court, only two people were available to serve our clients, both of them being the newest members of our staff. If their ability to provide services were limited, members of the public who required those services while I was in Court would have to return, or have their inquiries handled in a piecemeal fashion. Again, steps will be taken to improve monitoring of transactions and segregation of duties within 30 days. Full compliance with the Auditor's recommendations in this area are not possible without an unacceptable compromise of service to the public.*
- c) *The 1995 audit reviewed the Discis Reports ordered and maintained by the Court; there was no request or recommendation for additional reports. The reports which have been requested at this time will be ordered and maintained from January 1997 and thereafter.*
- d) *This is correct, as the Board will recall, this Court was understaffed for a significant period of time, the duties of the staff were prioritized to provide uninterrupted service to the public.*

The bank statement had been reconciled prior to this interview and will remain current in the future.

I want the record to reflect that the Court fully complied with the State's recommendations of 1995. While the recommendations in this year's audit will strengthen the Court's cash receipting internal control system, I want it to be clearly stated that any current shortcomings in those systems have not been the result of neglect on the part of my staff, or myself. Had these areas of concern been raised in 1995, they would have been addressed at that time.

Thank you for this opportunity to respond to the Auditor's findings.

Auditor's Concluding Remarks

It appears the District Court is in the process of implementing procedures to adequately address most of the weaknesses noted. With respect to segregation of duties, we feel that under the current system the court is not able to adequately ensure that all money received is deposited for the benefit of the public. There are a number of ways to improve the system which would not negatively impact customer service. We encourage the court to implement procedures to address all of the weaknesses noted.

3. Internal Controls Over Cash Receipting Should Be Strengthened At The Office Of County Clerk

During our audit of the County Clerk's receipting system which collected more than \$208,000 during 1995, we noted the following internal control weaknesses:

- a. There is an improper segregation of duties. The same person created receivables, receipted funds and posted the receipts to the Judicial Accounting Sub-System (JASS).
- b. No independent review of past due accounts is completed.
- c. Proper documentation for all adjustments to accounts receivable was not maintained.
- d. Audit adjustment reports have not been consistently generated or reviewed. These audit reports provide information on receipts and adjustments which validate recorded receipts.

RCW 43.09.200 states in part:

The accounts shall show the . . . documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction . . .

These conditions exist because there are no written policies or procedures to implement strong internal controls. Additionally, there was staff turnover which contributed to these weaknesses.

Inadequate internal control over cash receipting increases the court's exposure to theft.

We recommend that the policies and procedures be established and implemented to strengthen the cash receipting internal control system. We further recommend that system generated audit reports be produced, monitored, and retained.

Auditee's Response

a. Segregation of duties is not possible at all times in my small office. I have only 2 deputies; oftentimes one of those deputies is in the courtroom, thereby leaving only 1 deputy and myself to wait on customers. All 3 of us receipt funds and post those receipts to JASS (Judicial Accounting Sub-System) but only 2 of us create receivables. If the Commissioners would approve my request for another deputy, these duties could be properly segregated.

b. In the past, my office has reviewed past due accounts (criminal and juvenile financial obligations) and turned these lists over to the Prosecutor for follow-up because the Clerk does not have statutory authority to enforce collections. There is now a new procedure available in JASS for tracking collections but I did not have enough staff available to send someone for training in November 1996 when the class was offered. I will attempt to obtain this training from the Ferry County Clerk for future review of past due accounts.

c. When this weakness was brought to my attention by the State Auditor in October, I began having my accounting deputy maintain proper documentation on all adjustments for accounts receivable.

d. We also began generating audit reports on a weekly basis after the state audit in October 1996.

We have also received a copy of a cash receipting policy from our County Auditor (as of 12/31/96) and will incorporate it into our daily accounting procedures.

Auditor's Concluding Remarks

It appears that the County Clerk is in the process of implementing procedures to adequately address most of the weaknesses noted. With respect to segregation of duties, hiring additional staff is only one way to address the weaknesses noted. There are a number of other ways to improve the system. We encourage the County Clerk to implement alternative procedures to address all of the weaknesses noted.

4. Controls Over Cash Receipting Should Be Strengthened At The Sheriff's Department

During our review of the cash receipting system at the Sheriff's Department, a system which collected in excess of \$170,000 during 1995, we noted the following internal control weaknesses:

- a. No established written policies and procedures for the cash receipting process.
- b. Receipts are not consistently issued for all moneys received.
- c. Public funds are not funds being deposited intact within 24 hours of receipt as required by state law.
- d. Cash/check composition is not consistently recorded on receipts.
- e. The use of blank Redi-form receipts. The use of "Redi-form" receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner because the assignment of the numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- f. Checks are not restrictively endorsed upon receipt.

- g. Not all funds are being deposited, intact, to the county treasurer. Cash receipts are being deposited and disbursed from a revolving checking account.
- h. The same person receipts money, deposits this money into the revolving checking account, and reconciles the bank statements with no supervisory oversight. These are incompatible duties.

RCW 43.09.240

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

Weak internal controls over cash receipting increases the risk of theft.

These conditions have occurred because the Sheriff's Department has not implemented strong internal controls over the cash receipting system. Also the county does not have written procedures from which to establish and maintain proper control over county cash receipting.

We recommend the sheriff strengthen internal controls over the cash receipting system. These controls should include:

- a. Establishing written policies and procedures for cash receipting.
- b. Issue cash receipts for all funds collected.
- c. Deposit intact, within 24 hours of receipt, all public funds received.
- d. Record the cash and check composition on receipts to help assure that all receipts are recorded and deposited.
- e. Replace blank Redi-form receipts with official county prenumbered receipts.
- f. Restrictively endorse all checks upon receipt.
- g. Deposit all public funds with the county treasurer prior to disbursing these funds.
- h. Segregate the duties of cash collecting, depositing, and reconciling.

Auditee's Response

In response to the State Auditor's noted internal control weaknesses of our department, may it be documented that:

- A.) A written Policies and Procedures manual on receipting is in the process of being drafted.*
- B.) This department is now aware that a receipt is to be written for all monies received by this department.*
- C.) "Cash" or "Check" is now being written on all receipts in the Sheriff's Department and Corrections Facility.*
- D.) New receipts have been ordered for the drug "buy" money process.*

- E.) *Checks are being endorsed immediately after they are received.*
- F.) *We are aware that all donated money and what is purchased with it is to be approved by the Commissioners.*
- G.) *It is our intent to deposit all checks and cash with the Treasurer and voucher all expenses beginning January 01, 1997.*
- H.) *A revolving checking account will be used primarily for sending packages UPS and will have a balance of no more than \$250.00 at any one time, so there should be no problem with the civil deputy reconciling the bank statement.*

As you may have noticed many of the weaknesses that the State Auditor brought to our attention have been corrected or are in the process of being corrected. Although they weren't strong internal controls the chance of risk or theft was very minimal.

Auditor's Concluding Remarks

It appears that the county is in the process of taking appropriate steps to address the weaknesses noted.

5. Controls Over Fixed Assets Should Be Improved

During our review of the county's fixed assets internal control system we noted the following weaknesses:

- a. The county has not performed a comprehensive physical inventory for at least two years.
- b. The county does not have policies and procedures to ensure items identified as missing are investigated in a timely manor.
- c. The county does not maintain a comprehensive listing of all fixed assets owned.
- d. The county does not consistently tag all fixed assets purchased.

Revised Code of Washington (RCW) 36.32.210 states in part:

- (1) A full and complete inventory of all capitalized assets shall be kept
. . . .

While improvements have been made to the fixed asset internal controls system during the past year, the county has not implemented strong enough controls over fixed assets.

As a result of not conducting the inventory, the county is unsure of the location of some fixed assets and the risk of loss, misappropriation, or misuse of county assets has been increased.

We recommend the county develop and implement policies and procedures to ensure fixed assets are adequately safeguarded.

Auditee's Response

The county is in the process of implementing policies and procedures to address the items noted.

Auditor's Concluding Remarks

It appears that the county is in the process of taking appropriate steps to address the weaknesses noted.

Further, we appreciate the county's timely response to our audit findings. We will review the county's progress in these areas during our next regularly scheduled audit.

We also wish to thank the county's officials, managers, and personnel for their assistance and cooperation during our audit.

PEND OREILLE COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Chairman of the Board of Commissioners
Pend Oreille County
Newport, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of Pend Oreille County, Washington, for the fiscal year ended December 31, 1995. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the county prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of Pend Oreille County for the fiscal year ended December 31, 1995, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt and Schedule of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The special purpose districts listed in the supporting schedule are audited as a part of the trust and agency funds of Pend Oreille County. The districts' recorded transactions are an integral part of the county's financial statements for the fiscal year ended December 31, 1995.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 30, 1996, on our consideration of the county's internal control structure and a report dated December 30, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

December 30, 1996

PEND OREILLE COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Additional Information Regarding Audits Of Special Purpose Districts Included In
Trust And Agency Funds**

The State Auditor's Office has established audit policies for special purpose districts associated with the county's financial statements. These audit policies are designed to reflect low audit risk assessment, minimize audit costs, and apply auditing procedures that are appropriate to the district's size and other factors. For the purpose of these policies, special purpose districts are defined as most separate municipal corporations which use the county auditor and treasurer as ex-officio officers. Special purpose districts include:

- Unclassified Public Utility Districts
- Public Hospital Districts
- Unclassified Port Districts
- Cemetery Districts
- Ferry Districts (except county ferries)
- Fire Protection Districts
- Park and Recreation Districts
- Mosquito Control Districts
- Weed Control Districts
- Animal Pest Control Districts
- Ambulance and First Aid Districts
- Irrigation Districts
- TV Reception District
- Diking Districts
- Flood Control Districts
- Drainage Districts
- Diking and Drainage Districts
- Water Districts
- Sewer Districts
- Water/Sewer Districts

These policies DO NOT apply to school districts, airport districts, road improvement districts, county road and bridge service districts, utility local improvement districts, local improvement districts, metropolitan park districts, public transportation benefit areas, housing authorities, solid waste collection districts, county rail districts, lake management districts, or any economic or industrial development districts.

Classifications

Special purpose districts are classified into three categories determined by the amount and source of revenues. These categories define audit planning and scheduling, auditing procedures and levels of testing, billing procedures, and audit reporting requirements.

Category 1 Districts

All special purpose districts, regardless of type, which either:

- a. Had more than \$500,000 of revenues in any year being audited, or
- b. Received \$25,000 or more of direct or indirect federal assistance in any year being audited.

Category 1 districts are audited individually and each receives its own audit report. The Category 1 districts associated with the county's financial statements are:

Diamond Lake Water/Sewer
Public Hospital District No. 1
Port of Pend Oreille

Category 2 Districts

All special purpose districts which had total revenues of at least \$25,000 but not more than \$500,000 in any year being audited and which received less than \$25,000 in direct and indirect federal assistance. Additionally, the following types of districts will be considered as Category 2 even if their annual revenues are less than \$25,000:

Public Utility Districts
Public Hospital Districts
Irrigation Districts
Water Districts
Sewer Districts
Water/Sewer Districts
Port Districts

These types of districts have greater audit risks than other types of districts of equivalent size because they typically received a significant amount of their revenues from locally generated sources rather than through taxes and assessments.

Category 2 districts are audited as a group using limited auditing procedures. A single, combined audit report is issued for the Category 2 districts. The Category 2 districts associated with the county's financial statements are:

Chippewa Water and Sewer District
Fire District No. 2
Fire District No. 3
Fire District No. 4
Library District
Sacheen Sewer District

Category 3 Districts

All special purpose districts which had total revenues of less than \$25,000 in any year being audited except those districts specifically listed in Category 2.

Category 3 districts are audited only at the county level using auditing procedures appropriate for a trust and agency fund. No separate audit reports are issued for Category 3 districts. The Category 3 districts associated with the county's financial statements are:

- Cemetery District No. 1
- Cemetery District No. 2
- Cemetery District No. 3
- Diking District No. 2
- Fire District No. 1
- Fire District No. 5
- Fire District No. 6
- Fire District No. 7
- Fire District No. 8
- Public Hospital District No. 2
- Lenora Sewer District

PEND OREILLE COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Chairman of the Board of Commissioners
Pend Oreille County
Newport, Washington

We have audited the financial statements of Pend Oreille County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated December 30, 1996. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Pend Oreille County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

December 30, 1996

PEND OREILLE COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Chairman of the Board of Commissioners
Pend Oreille County
Newport, Washington

We have audited the financial statements of Pend Oreille County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated December 30, 1996.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirement was determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

December 30, 1996

PEND OREILLE COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs**

Chairman of the Board of Commissioners
Pend Oreille County
Newport, Washington

We have audited the financial statements of Pend Oreille County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated December 30, 1996.

We also have audited the county's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- reporting
- special tests and provisions related to payment vouchers, extensions, liquidated damages, and testing program as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*, *Catalog of Federal Domestic Assistance*, and grant agreement/contract
- claims for advances and reimbursements
- and amounts claimed or used for matching

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Pend Oreille County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

December 30, 1996

PEND OREILLE COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Chairman of the Board of Commissioners
Pend Oreille County
Newport, Washington

We have audited the financial statements of Pend Oreille County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated December 30, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated December 30, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated December 30, 1996.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Receipts
 - Disbursements
 - Payroll
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Inventory control
 - Property, plant, and equipment
- **General Requirements**
 - Relocation assistance and real property acquisition
- **Specific Requirements**
 - Eligibility
 - Matching, level of effort, earmarking

During the fiscal year ended December 31, 1995, the county expended 69 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the county's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the chairman of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

December 30, 1996

PEND OREILLE COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

State

1. Public Funds Were Misappropriated And Accounting Records Were Falsified And Destroyed By An Employee Of The Mental Health Department

Resolution: The county recovered the misappropriated funds and related audit costs from the employee who admitted guilt. Controls in the department have been strengthened; the finding will not be repeated.

2. Controls Over Cash Receipting Should Be Strengthened

Resolution: The county improved controls in some areas, however, weaknesses continue to exist. Control weaknesses are outlined in the findings included in this report.

3. The County Sheriff Needs To Improve Property And Evidence Inventory Controls

Resolution: The county has implemented procedures to identify the auction proceeds from drug-seized property sold at auction. We have discussed implementation of additional controls with the Sheriff's Department; the finding will not be repeated.

Federal

1. The County Should Develop An Integrated Grant Accounting System

Resolution: The county implemented new software which integrates grant accounting; the finding will not be repeated.

2. Internal Controls Over Fixed Assets Should Be Improved

Resolution: Weaknesses continue to exist in the fixed asset system; the noted weaknesses are contained in a finding in this report.

PEND OREILLE COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Status Of Prior Questioned Costs

<u>Grants</u>	<u>Audit Report Year</u>	<u>Costs Questioned</u>	<u>Current Status</u>	
			<u>Unresolved</u>	<u>Resolved</u>
Community Mobilization (CMSA) (CFDA 84.186)	1994	\$ 300.26		x
Substance Abuse (DASA) (CFDA 93.959)	1994	1,049.95		x